

**REPORT OF THE AUDIT OF THE
MONROE COUNTY
SHERIFF**

**For The Year Ended
December 31, 2004**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**105 SEA HERO ROAD, SUITE 2
FRANKFORT, KY 40601-5404
TELEPHONE (502) 573-0050
FACSIMILE (502) 573-0067**

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE MONROE COUNTY SHERIFF

**For The Year Ended
December 31, 2004**

The Auditor of Public Accounts has completed the Monroe County Sheriff's audit for the year ended December 31, 2004. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees decreased by \$3,844 from the prior year, resulting in excess fees of \$1,598 as of December 31, 2004. Revenues increased by \$24,985 from the prior year and expenditures increased by \$27,629.

Report Comments:

- The Sheriff Should Require Depository Institution To Pledge Or Provide Sufficient Collateral To Protect Deposits
- The Sheriff's Office Lacks Adequate Segregation Of Duties

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Wilbur Graves, Monroe County Judge/Executive
Honorable Jerry Gee, Monroe County Sheriff
Members of the Monroe County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the County Sheriff of Monroe County, Kentucky, for the year ended December 31, 2004. This financial statement is the responsibility of the County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the County Sheriff for the year ended December 31, 2004, in conformity with the regulatory basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated July 18, 2005, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.



The Honorable Wilbur Graves, Monroe County Judge/Executive
Honorable Jerry Gee, Monroe County Sheriff
Members of the Monroe County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff Should Require Depository Institution To Pledge Or Provide Sufficient Collateral To Protect Deposits
- The Sheriff's Office Lacks Adequate Segregation Of Duties

This report is intended solely for the information and use of the County Sheriff and Fiscal Court of Monroe County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
July 18, 2005

MONROE COUNTY
JERRY GEE, COUNTY SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2004

Revenues

Federal Grants		\$	24,378
State - Kentucky Law Enforcement Foundation Program Fund			10,508
State Fees For Services:			
Finance and Administration Cabinet	\$	17,601	
Cabinet For Human Resources		689	
House Bill Payments		3,724	
Sheriff Security Service		<u>4,532</u>	26,546
Circuit Court Clerk:			
Fines and Fees Collected			1,405
Fiscal Court			48,204
County Clerk - Delinquent Taxes			659
Commission On Taxes Collected			93,791
Fees Collected For Services:			
Auto Inspections	\$	6,080	
Accident and Police Reports		221	
Serving Papers		13,270	
Carrying Concealed Deadly Weapon Permits		1,710	
Sheriff Add On Fees		<u>15,044</u>	36,325
Other:			
Miscellaneous			3,885
Interest Earned			623
Borrowed Money:			
State Advancement	\$	44,218	
Bank Note		<u>26,800</u>	<u>71,018</u>
Total Revenues		\$	317,342

The accompanying notes are an integral part of this financial statement.

MONROE COUNTY
 JERRY GEE, COUNTY SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2004
 (Continued)

Expenditures

Payments to State:

Carrying Concealed Deadly Weapon Permits	\$	510
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Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries	79,939
COPS Salaries	18,970
KLEFPF Salaries	9,849
Court Bailiff	15,976
Contract Labor	650

Employee Benefits-

Employer's Share Social Security	2,151
Employer's Share Retirement	1,153
Employer Paid Health Insurance	691

Contracted Services-

Grant Expenses	3,092
Vehicle Maintenance and Repairs	12,476

Materials and Supplies-

Office Materials and Supplies	709
Uniforms	1,509

Auto Expense-

Gasoline	20,221
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Other Charges-

Dues	325
Postage	112
Court Costs to Fiscal Court	3,870
Bond	549
Miscellaneous	1,107

Capital Outlay-

Vehicles	4,800	\$	178,659
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Debt Service:

State Advancement	44,218
Notes	26,800
Interest	1,114
	72,132

Total Expenditures	\$	250,791
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The accompanying notes are an integral part of this financial statement.

MONROE COUNTY
JERRY GEE, COUNTY SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2004
(Continued)

Net Revenues		\$	66,551
Less: Statutory Maximum			<u>64,953</u>
Excess Fees Due County for 2004		\$	1,598
Payments to Fiscal Court - March 17, 2005	\$	1,438	
July 15, 2005		<u>160</u>	<u>1,598</u>
Balance Due Fiscal Court at Completion of Audit		\$	<u><u>0</u></u>

The accompanying notes are an integral part of this financial statement.

MONROE COUNTY
JERRY GEE, COUNTY SHERIFF
NOTES TO FINANCIAL STATEMENT

December 31, 2004

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Sheriff as determined by the audit. KRS 134.310 requires the County Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2004 services
- Reimbursements for 2004 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2004

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

MONROE COUNTY
JERRY GEE, COUNTY SHERIFF
NOTES TO FINANCIAL STATEMENT
December 31, 2004
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.34 percent for the first six months and 8.48 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of December 9, 2004, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$109,206 of public funds uninsured and unsecured.

MONROE COUNTY
 JERRY GEE, COUNTY SHERIFF
 NOTES TO FINANCIAL STATEMENT
 December 31, 2004
 (Continued)

Note 3. Deposits (Continued)

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official as of December 9, 2004

	<u>Bank Balance</u>
FDIC insured	\$ 100,000
Collateralized with securities held by pledging depository institution in the county official's name	1,350,000
Uncollateralized and uninsured	<u>109,206</u>
Total	<u>\$ 1,559,206</u>

Note 4. Drug Fund

The Monroe County Sheriff's office established a drug fund in February 1992 with funds received as the result of a drug investigation. These funds were to be used for drug enforcement and education. As of December 31, 2003, the drug fund had a balance of \$2,036. During 2004, receipts totaled \$4,883 and disbursements totaled \$6,890. As of December 31, 2004, the drug fund had a balance of \$29.

Note 5. Grants

The Monroe County Sheriff's office was awarded with Community Oriented Policing Services in Schools Grant Program from the U.S. Department of Justice. These funds were used to hire two additional full-time officers. As of December 31, 2003, the grant fund had a balance of \$0. During 2004, grant receipts totaled \$29,180 and interest earned totaled \$17. Disbursements totaled \$21,534. As of December 31, 2004, the grant account had a balance of \$7,663.

The Monroe County Sheriff's office was awarded with a Pennyrile Grant Program from the U.S. Department of Justice. These funds were deposited into the fee account. During 2004, grant receipts totaled \$2,844 and were used for drug enforcement.

COMMENTS AND RECOMMENDATIONS

MONROE COUNTY
JERRY GEE, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2004

STATE LAWS AND REGULATIONS:

- 1) The Sheriff Should Require Depository Institution To Pledge Or Provide Sufficient Collateral To Protect Deposits
-

On December 9, 2004, \$109,206 of the Sheriff's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the Sheriff require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

Sheriff's Response: None

INTERNAL CONTROL - REPORTABLE CONDITION:

The Sheriff's Office Lacks Adequate Segregation Of Duties

The Sheriff's office has a lack of segregation of duties. Due to the entity's diversity of official operations, small size and budget restrictions the official has limited options for establishing an adequate segregation of duties. We recommend that the following compensating controls be implemented to offset this internal control weakness:

- The Sheriff should periodically compare a daily bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger. Any differences should be reconciled. He should document this by initialing the bank deposit, daily checkout, and receipts ledger.
- The Sheriff should compare the quarterly financial report to receipts and disbursements ledgers for accuracy. The Sheriff should also compare the salaries listed on the quarterly report to the individual earnings records. Any differences should be reconciled. The Sheriff should document this by initialing the quarterly financial report.
- The Sheriff should periodically compare invoices to payments. The Sheriff should document this by initialing the invoices.
- The Sheriff should periodically compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. The Sheriff should document this by initialing the bank reconciliation and the balance in the checkbook.

Sheriff's Response: None

INTERNAL CONTROL - MATERIAL WEAKNESS:

We consider the above reportable condition to be a material weakness.

MONROE COUNTY
JERRY GEE, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2004
(Continued)

PRIOR YEAR:

In the prior year audit report, the Auditor of Public Accounts made the following comment and recommendation:

- Lacks Adequate Segregation Of Duties

This finding has not been corrected and is repeated in the current year audit report.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Wilbur Graves, Monroe County Judge/Executive
Honorable Jerry Gee, Monroe County Sheriff
Members of the Monroe County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Monroe County Sheriff for the year ended December 31, 2004, and have issued our report thereon dated July 18, 2005. The County Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Monroe County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The Reportable condition is described in the accompanying comment and recommendation.

- Lacks Adequate Segregation Of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, the reportable condition described above, is considered to be a material weakness.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Monroe County Sheriff's financial statement for the year ended December 31, 2004, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying comment and recommendation.

- The Sheriff Should Require Depository Institution To Pledge Or Provide Sufficient Collateral To Protect Deposits

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
July 18, 2005

